

# Back to the Future

## Lessons from New Zealand's Past

Ronald Trotter

Many New Zealanders mistakenly blame the economic reforms of the 1980s and 1990s for social problems such as family breakdown, unemployment and crime. They should take another look at the 'good old days' without rose-tinted glasses.

Much of the political debate about 'old' New Zealand over the past fifteen years has focused on the economy. By the 1970s, New Zealanders came to understand that the country's living standards were not keeping pace with those of leading countries. What was holding New Zealand back was the heavy hand of government control that extended into almost every recess of commercial life. David Lange dubbed this the 'Polish shipyard' as the business sector suffocated under a tangled web of regulations and subsidies that all but snuffed out its capacity for wealth creation.

We joke today about some of the more eccentric features of the Fortress New Zealand era. Many imports were simply banned. It was against the law to make carpets from anything other than wool. To buy margarine you had to get a doctor's prescription. Until 1967, hotel bars closed at six o'clock. You were not allowed to truck goods more than 40 miles. To buy Australian shares you had to apply to the Reserve Bank. You bought five shilling British postal notes to subscribe to overseas magazines.

Most New Zealanders, whether enthusiastically or grudgingly, came to accept that New Zealand could not survive as an economic museum. Yet many do not realise to this day how many relics of old New Zealand are still around us. It is still not legal, for example, to sell apples and pears and dairy products to a foreign buyer without a permit, or to own more than one pharmacy. Governments still take and spend about 40% of national income compared to about half that ratio 50 years ago.

Moreover, many people have not noticed that while New Zealand just sat on its hands for most of the last two parliaments, other countries like Australia kept reforming their economies and are now outpacing us again. And the new government seems to want to turn back the clock in all sorts of ways, ranging from restoring the state monopoly

with the Accidents and Compensation Corporation (ACC) to bringing back area health boards, repealing the Employment Contracts Act 1991 and making trans-Tasman shipping a closed shop again.

If New Zealand continues to ignore the lessons of economic success here and elsewhere, the public will sooner or later recognise the mistakes and press for changes, although the cost will be slow income growth and needless unemployment in the meantime.

### The 'good old days': the popular view

Many people think we have lost some of the things they valued about New Zealand in earlier days. They use words like the 'decent society' and 'social cohesion' to describe them. They are disturbed by the incidence of family breakdown, unemployment and crime. They see too many people, especially Maori, as trapped hopelessly in poverty. They remember a time when New Zealand did not seem to have many of these problems, and they do not see why we should tolerate them today.

These concerns are valid, but where those who express them sometimes go wrong is in linking them to the changes of the last fifteen years. New Zealand was not a happy, prosperous, cohesive society by the 1970s and early 1980s.

I was chairman of the Steering Committee of the Economic Summit that met in 1984. The communiqué of that summit spoke bluntly of 'an unacceptable level of poverty', people with 'major difficulties with housing, health care, and meeting essential family needs', 'a decline in social services' and 'increasing social discontent'. By

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1984, any illusions that we were 'a land of milk and honey' or living in 'God's own country' had long been shattered. We would not have needed that summit if it had been otherwise.

I am old enough to have lived through the period that some look back on with nostalgia. I grew up in a farming community during the depression years. Large numbers of people were wandering about the country looking for work, and there was often a swaggie in our woodshed. However, my parents never locked the door of the house, because neighbours might have wanted to pop in to use the phone or make a cup of tea. Despite unemployment and hardship, the crime rate was far lower than it is today.

I can just remember the first Labour government elected in 1935 and the social security measures of 1938. Some people today seem to regard the government of Michael Joseph Savage as one that launched New Zealand into big government and large scale welfare. Nothing could be further from the truth. In an editorial last year, the *Evening Post* correctly observed:

It's an unpopular view, but the Welfare State founded by the First Labour Government of Michael Joseph Savage is more in tune with the current philosophies of the National and Act parties than those of Labour and the Alliance.

Even though Savage's government boosted public spending, it still amounted to only 16.6% of gross domestic product (GDP) in 1938. Savage and Nash were fiscal and moral conservatives. Welfare was seen as a temporary hand-up, not an open-ended handout. Savage insisted that pensions should be means-tested, not paid on a universal basis regardless of wealth. His government was very conscious of the risks of state welfare undermining the role of the churches and charities.

Many of its members also had grave misgivings about introducing compulsory unionism in 1936, fearing that it would make unions domineering and unaccountable. By the late 1940s these fears were proving to be well founded.

The 1950s were often seen as the high point of the 'good old days' for New Zealand. Export prices were high and the adverse effects of Fortress New Zealand policies were only just starting to bite. It was a time of full employment when firms were free to hire and fire people provided they observed ordinary contracts. Things like today's so-called unjustified dismissal laws, the

Employment Court and the Human Rights Commission had not been invented.

By today's standards, welfare dependency was minimal at that time. People accepted an obligation to find work. They looked first to family, friends, charities and churches for help and support, not the state. Most hated going on the dole and only did so as a last resort. Thrift was regarded as an important value. People expected to have to save for their own retirement, with the pension being a residual safety net. Until 1960, the Universal Superannuation payable without a means test to all over 65 was a small sum. Before the fads and fashions of the last 30 years, education focused on the basics. Adoption was usually seen as a better solution than sole parenthood.

Consider too some of the moral values that were reflected in the laws of the time. The law frowned on public drunkenness and loitering. It was an offence to have 'no visible means of support'—a far cry from later attitudes towards welfare. Criminals were not generally seen as 'victims of society'; previous generations expected citizens to be law-abiding and supported laws, policing and penalties that kept crime to low levels. It would have been unthinkable to hear a minister of the church condoning theft in those days. Students going overseas to escape debt obligations would have been regarded as morally bankrupt.

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**The 'good old days': an alternative view**

I do not look back on that period with rose-tinted spectacles. The New Zealand economy was already starting to seize up by the 1950s with lower productivity growth rates than our trading partners, for reasons that

include things like the introduction of import licensing and exchange controls in 1938. Some of the social legislation of the time was unduly harsh. Some children did not get good educational chances.

There was a certain grey conformity and repressiveness in the national culture. As late as 1961 there were only three licensed restaurants in Auckland. BYOs were illegal everywhere. The film of James Joyce's *Ulysses* could only be shown to segregated audiences. Many practices held women back: for example, they often had to get their husband's permission to open bank accounts. I marched against the Springbok tours.

For all that, there was much more that was good than not about the environment of the middle years of the last century. The worst mistakes came later.

### The era of big government

Governments abandoned fiscal conservatism and greatly over-reached themselves in bidding for votes without acknowledging the consequences. Government spending and taxation grew enormously. With higher taxes, people found it more and more difficult to provide for needs such as housing or saving for retirement.

Governments then started to spend more on things like housing and superannuation themselves, which only raised the tax burden further. Married women entered the workforce not just as a matter of choice but in order to help make ends meet. This put more pressure on families. The terminus of this process is today's calls for childcare subsidies and paid parental leave—ordinary families have become wards of the state.

The need for state welfare should have fallen sharply after New Zealand recovered from the depression years and with the prosperity of the 1950s and 1960s. Instead, it grew with more expansive programmes such as ACC, the domestic purposes benefit and National Superannuation being introduced in the 1970s. In the process, the social roles of organisations like the church and charities were displaced.

Some people say that the sacrifice of freedom associated with the welfare state is a price worth paying to obtain more security and more social cohesion. The history of the last 30 years has shown, however, that as the expansion of government expenditure becomes increasingly unaffordable, the welfare state provides no more security than quicksand.

Nearly a million people—one in four New Zealanders—are now dependent on the state, that is, on the taxes paid by other people, for income and employment assistance. Rather than strengthening social cohesion, the welfare state has become a source of discontent. The politics of social welfare now seems to be concerned primarily with actions by various groups to exercise their political muscle to preserve what they have come to see as 'entitlements'.

Savage and members of the first Labour government would not recognise today's welfare state. There is a crying need for debate to be re-focused back to the question of how to provide effective help to the people in most need of assistance at least cost to the broader community.

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The underlying belief during the last 30 years has been that bigger government enhances social cohesion. This view lay behind the expansive recommendations of the 1972 Royal Commission on Social Security with its language of participating and belonging. Supporters of this view favour greater public spending and taxation in the hope of reducing income gaps. They prefer universal subsidies to services such as health and education, regulation of the labour market and minimum wages, and more funding for things like culture, Maori grievances and declining regions.

The practical difficulty with this view is that bigger government approaches to social cohesion have been tried time and time again. We have at least 40 years of experience with them to reflect on. They have not worked. Indeed, they have contributed to the present discontent.

The more fundamental difficulty is that big government uses force to suppress alternative choices. This is inherently divisive. So too is the modern tendency to legislate to deprive individuals of the freedom to make moral choices: too easily it leads to the tyranny of political correctness. Ultimately, as governments have overextended themselves, we have seen a decline in public support for democratic institutions, and for the idea of one rule of law for all.

Those who think New Zealand enjoyed greater social cohesion before the big government era are right. We need to relearn some lessons from the past. We find the same lessons in Asian societies where levels of government spending, taxation and welfare are much lower than ours, and which enjoy lower rates of unemployment, less family breakdown, fewer out-of-wedlock births and less crime.

Another lesson comes from the United States where in recent years a strong economy, a falling ratio of government spending, flexible labour markets, and reforms to make state welfare more restrictive and conditional have led to improvements in virtually all social indicators. A *Wall Street Journal* editorial recently observed that doing well in the new economy 'increasingly means fidelity to the old verities: stable families, a decent education, and a willingness to forgo immediate indulgences for future (compounded) benefits.'



### Big government versus individual freedom

Socialist rhetoric derides those who favour smaller rather than bigger government in promoting a decent society as ‘rampant individualists’ who lack a ‘sense of community’. However, the proposition is absurd. One of the first modern proponents of limited government, Adam Smith, wrote that ‘[i]n civilised society [man] stands at all times in need of the cooperation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons’ (1976: 18). Smith stressed the importance of markets and civil society for social cohesion. He saw ‘improvements in art and industry’, ‘civilisation’, ‘order and good government’ and ‘the liberty and security of individuals’ as positively linked together. This is a vision of peaceful coexistence among people who do not strive to exert coercive power over each other.

Achieving greater social cohesion means reconstructing the values and institutions that helped produce it the past. It means strengthening the institutions of civil society—families, firms and voluntary organisations—and shrinking political society. It means emphasising the rule of law and the role of markets, competition and choice. In the free marketplace, people are not forced to do anything but they have to cooperate to succeed. Achieving greater social cohesion also means recognising that there are no rights without duties and that actions have consequences, and it means rewarding and honouring the virtues of honesty, decency, self-reliance, charity, thrift, and hard work.

Above all, achieving a cohesive society means upholding the freedom and responsibility of the individual. Cohesion will never be built on coercion, as the divisiveness of socialist societies demonstrates. When people are compelled to do things they inevitably resist. Nor can the state make individuals morally responsible.

These beliefs lay at the heart of the founding of America, and although they have been battered and eroded over the years, they are still what makes America strong. The main theme of President Clinton’s millennium address was that ‘[t]he sun will always rise on America as long as each new generation lights the fire of freedom’. Any US president would have said the same thing.

By contrast, the word ‘freedom’ did not feature in Helen Clark’s millennium address. The Prime Minister spoke of poverty, equality, security, identity, justice, fair play, and the environment. But never once did she speak of freedom. The value of freedom might also have been overlooked if Jenny Shipley had been giving the address.

My contention is that there has been a loss of continuity in upholding a commitment to freedom and responsibility

in our society. The older generation in New Zealand had a better understanding of freedom: they went to fight in foreign wars to preserve it. At home, although they looked to the state to undertake many core functions, they kept it within limits, even up to the 1930s. They knew that bigger government meant less personal freedom. They understood the connections between freedom and responsibility.

The true father of the Alliance, and Michael Joseph Savage’s archrival, John A Lee, did not. He wanted the state to make people behave responsibly, saying for example: ‘If there’s one thing that New Zealand will live to regret, it’s the abolishing of the six o’clock closing system.’ Few, if any, would agree with him today. With greater freedom in drinking has come greater responsibility, if still not enough; bad habits take time to change.

Yet the same statist thinking came through in the previous government’s attempt to introduce a Code of Social and Family Responsibility. There was nothing much wrong with what was in the proposed code. The problem was that it was a state initiative. And the problem with the reaction of church and welfare groups was that they did not tell the government to butt out and reclaim this ground for themselves. Rather, they accused the government of having a hidden agenda to offload its welfare responsibilities.

### Conclusion

In rebuilding social cohesion, the institutions that lie outside the realm of the state—churches, charities, community organisations, private schools, hospitals and businesses—must once again have a leading role. In countries that have tried harder to limit the role of government, such as the United States, support for these institutions has remained much stronger.

The institutions of civil society must ask governments to help them recapture the lost ground, for example by funding government and independent schools on an equal basis and by lowering taxes so that people can take more care of themselves and others. They should encourage young people to join organisations that help people in need, encourage charitable giving—Americans typically give a week’s income to charity each year—and encourage wealthy people to engage in philanthropy. Above all, they should encourage a society of free and responsible individuals. ■

### References

Smith, Adam. [1776] 1976, *The Wealth of Nations* Book 1, University of Chicago Press, Chicago.